IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2005 through the Fourth Quarter of 2009

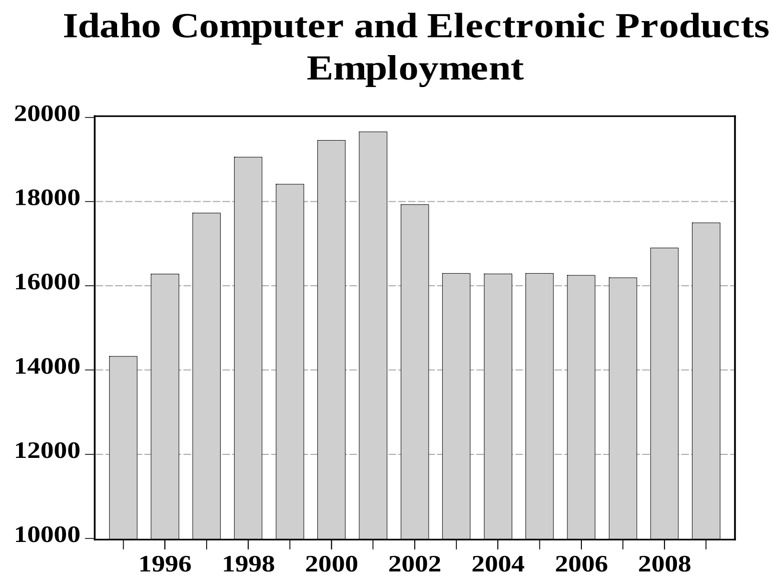
Idaho’s robust economic growth at the beginning of last year and steady growth since then virtually guarantee 2005 was one of the best years in recent memory. Idaho nonfarm employment started the year by growing at a 6.6% annual rate—its strongest showing since the third quarter of 1993. Total employment also topped the 600,000-job threshold in the same quarter. Much of this strength reflected the red-hot construction sector that was creating jobs almost five times faster than during last year’s first quarter. Fueling the jump in construction jobs was housing starts in the Gem State, which advanced at an incredible 62.7% annual pace. Boosted by the strong job gain, Idaho nominal personal income grew by a healthy 8.6% annual pace in the first quarter of 2005. It should also be noted that Idaho nominal personal income grew more than four times faster than national personal income. Adjusting for inflation shows Idaho personal income rose 6.2% in the first quarter of 2005. In comparison, U.S. real personal income was flat during the same quarter.

After enjoying an incredible first quarter, Idaho’s economy settled into more sustainable growth during the second quarter of 2005. Idaho nonfarm employment increased at a 2.5% rate, as construction employment “slowed’ from the previous quarter’s 28.1% pace to 6.3% in the second quarter. Idaho housing starts actually declined in the second quarter, but still remained at a very high level. Idaho nominal personal income increased 6.7% in the second quarter while real personal income grew about half as fast. As was the case in the first quarter of 2005, all of these Idaho economic indicators except for construction employment increased faster than their national counterparts.

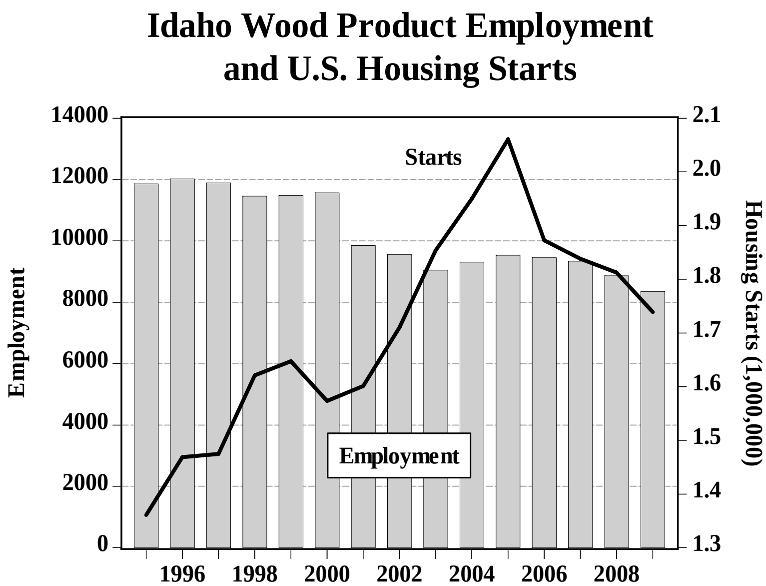
Idaho nonfarm employment is expected to advance just over 2% in both quarters of the second half of 2005. If this forecast holds, Idaho nonfarm employment will have grown 3.7% in 2005, which would be its best year since 2000. This is more than twice the 1.6% forecasted growth rate for national nonfarm employment. One of the reasons for the Gem State’s job advantage is construction. Idaho construction employment is forecast to rise 11.4% in 2005, while national construction employment should grow 3.9%. Idaho nominal personal income should rise 7.2% and real personal income should increase 4.3%. National nominal personal income is anticipated to increase 5.7% and U.S real personal income should grow 2.8%.

Idaho’s economy should continue to grow, but not match the high-water mark it set in 2005. However, Idaho’s economy will continue to grow faster than the national economy. Idaho nonfarm employment should average about 2% growth per year during the 2006-2009 period, raising employment to 661,700 jobs in the terminal year of the forecast. This is significantly faster than the expected U.S. nonfarm job growth of 1.3% per year. As in 2005, Idaho personal income, both nominal and real, should grow faster than at the national level. Specifically, Idaho nominal personal income is forecast to increase 6.4% annually. National nominal personal income should rise 6.1% per year. It is predicted Idaho real personal income will grow 4.1% annually and U.S. real personal income will advance 3.8%.

SELECTED IDAHO ECONOMIC INDICATORS

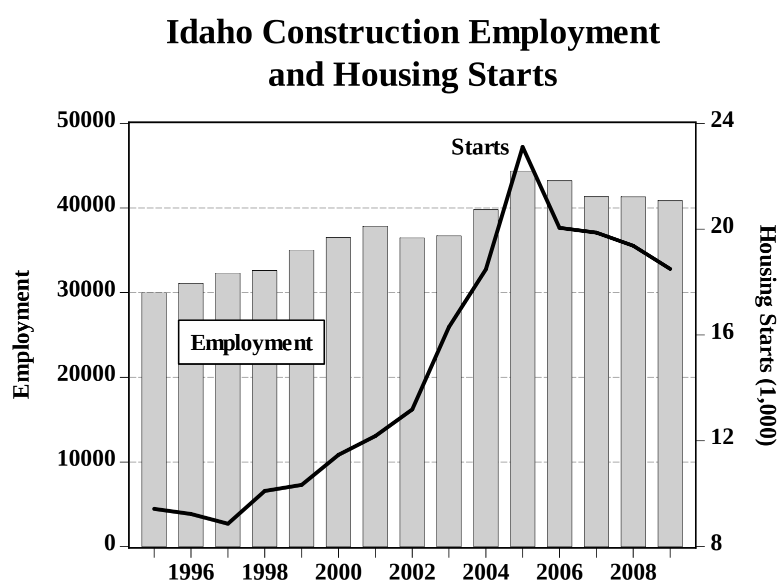


Computer and Electronics: Employment in Idaho's largest manufacturing sector is forecast to remain flat through 2007. This outlook could be viewed as a bottle that is half empty or half full. A pessimist would point out the forecast is disappointing for the sector that was one of the state's most reliable economic growth engines in the 1990s. An optimist would note the outlook means an end to the huge job declines that plagued the computer and electronics sector in the first years of the current decade. A review of this sector's recent history shows why both opinions are valid. During the 1990s several factors combined to create near perfect conditions for rapid growth. These factors included the growing sophistication of personal computer hardware and software that was a boon to local memory manufacturer Micron Technology. In addition, Micron's computer manufacturing subsidiary grew along with the popularity of personal computers. Hewlett-Packard's Boise plant prospered thanks to its phenomenally successful laser printer line. Zilog and AMI designed and produced application specific integrated circuits for a wide variety of products. Thanks to the success of these and other Idaho-based high-technology companies, Idaho computer and electronics employment advanced an average of 6.3% per year from 1991 to 2001. At this pace, this sector grew to become the state's largest manufacturing employer in 1997. Unfortunately, the high-tech industry entered a protracted downturn early this decade that grounded this high-flying sector. The casualty list from this turn of events included most of Idaho's biggest players. Jabil Circuit, a relatively new arrival on the Gem State's high-tech scene, halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. At first, this sector had enough momentum to weather the slowdown, though its employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the next year was not as prosperous. The Gem State's computer and electronics sector suffered another round of layoffs in 2002; this time employment did not just slow, it plunged 8.8%. This decline was followed by a 9.1% drop in 2003, as Micron Technology reduced its Idaho workforce by about 1,000 in early 2003. The good news is Idaho computer and electronics employment stabilized in 2004. However, this sector is not expected to regain all the jobs lost during the recent high-tech slump. Specifically, Idaho computer and electronics manufacturing employment should advance 0.1% in 2005, retreat 0.3% in both 2006 and 2007, increase 4.3% in 2008, and rise 3.5% in 2009. This forecast does carry a couple of downside risks. Hewlett-Packard recently announced it plans to reduce its company workforce by about 15,000 over the next 18 months. However, the company has not released details of the impacts this move will have on the Boise site. Because of this lack of data, no impacts from the company's latest round of restructuring have been built into this forecast. Another challenge this sector faces is the potential glut of supply in the global semiconductor market. Not all risks are on the downside. Micron Technology is diversifying its product line in order to insulate itself from downturns in the DRAM market. To this end, the company announced it is investing in a new joint venture with Intel to produce NAND flash memory. This type of memory is used in digital cameras, cell phones, and MP3 players.

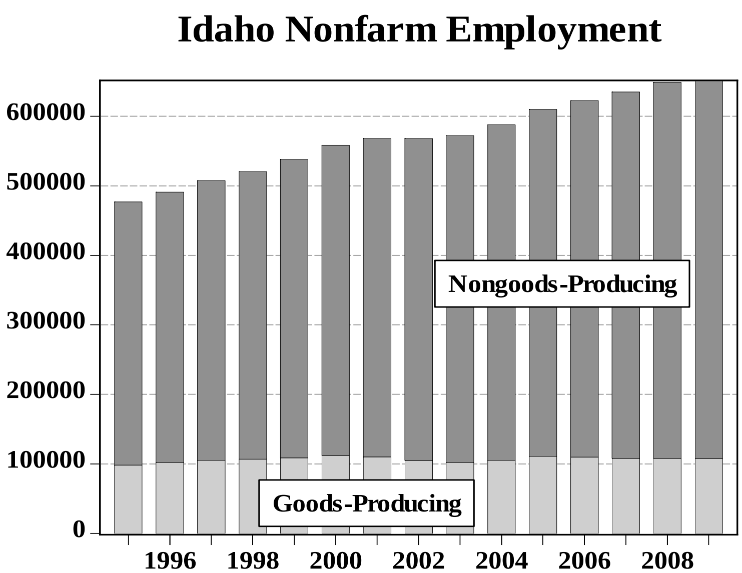


Logging and Wood Products: Employment in Idaho's logging and wood products sector is forecast to remain relatively stable over the next few years before falling, beginning in 2008. The start of this sector's recent round of stability actually began in 2004, when employment advanced significantly for the first time in seven years. Prior to 2004's job gain, this sector's employment had declined 25% from 1996 to 2003. This forecast is an improvement over the one made a year ago. Last January, this sector's employment was projected to begin a new round of declines in 2005, which would leave 8,300 jobs in 2008. In the current forecast, Idaho logging and wood products employment actually increases in 2005. Much of the job improvement reflects the stronger than anticipated housing market. In January 2005, it was believed U.S. housing starts had peaked in 2004 and starts would be softer in 2005. However, this did not happen. National housing starts once again defied almost everyone's expectations by growing above 2 million units in 2005. Not only did this help support Idaho logging and wood products employment in 2005, but by raising the bar, it provides employment stability a ways down the road. Another reason for the more optimistic employment forecast is Idaho logging and wood products employment has remained strong through 2005. The most recent data from the Idaho Department of Commerce and Labor show logging and wood products employment advanced at an 8.6% annual rate in the first quarter of 2005 followed by 10.1% in the second quarter. As a result, mid-year employment was nearly 9,700, which is higher than the previous year's forecast of 9,300 jobs. This sector is also being helped by the weaker U.S. dollar, which is making U.S. wood products more competitive compared to Canadian products. Although this sector out performed the January 2005 forecast, future logging and wood products employment gains will be limited by local capacity constraints and ongoing efficiency measures. Idaho manufacturing capacity is limited because several mills have been closed in recent years and the surviving mills have been forced to produce more products with less labor in order to remain viable. It has been estimated each Idaho logging and wood products employee produced about 215,000 board feet of lumber in 2003, which is well above the 172,000 board feet of lumber per worker produced in 1993. While stronger demand has contributed to the improved outlook, supply issues have not gone away. A major concern is timber supply. The Gem State's logging and wood products sector has been traditionally dependent on timber from public lands, but this source has been shrinking over time. According to the U.S. Forest Service, just over half the timber harvested in Idaho came from public lands in 1993. By 2003, public timber accounted for less than 30% of the total harvest. A significant part of this decline is due to reduced harvests from national forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Looked at another way, in 1993 timber from national forests accounted for more than a third of the total harvest, but just over 12% in 2003. Another concern is the current manufacturing overcapacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. This capacity is not currently a problem because of strong demand, but can lead to softer prices when demand ebbs.

Mining: After declining for several years, the Gem State's mining sector's employment has been expanding recently. This sector's employment peaked at nearly 3,000 jobs in 1997. From that year until 2002, this sector's payroll shrank by over 40%, or about 1,200 jobs. The number of mining jobs grew slightly in 2003. It then rebounded noticeably over the next two years, taking mining employment above 2,000 jobs in 2005. It is forecast Idaho mining employment will expand slightly in 2006. If the forecast holds, mining will have grown in four consecutive years. The last time this happened was in the mid-1990s. Idaho mining employment is expected to peak at 2,200 in 2006. While this is about 400 higher than its nadir in 2002, it is well below it previous peak of 3,000 jobs in 1997. Unfortunately, this is a recurring theme for this sector. A timeline of Idaho mining employment displays a downward trend in which any given peak in employment is smaller than the preceding peak. While the mining industry has enjoyed employment gains recently, it will eventually succumb to tougher times. As a result, Idaho mining employment is anticipated to decline after this year.



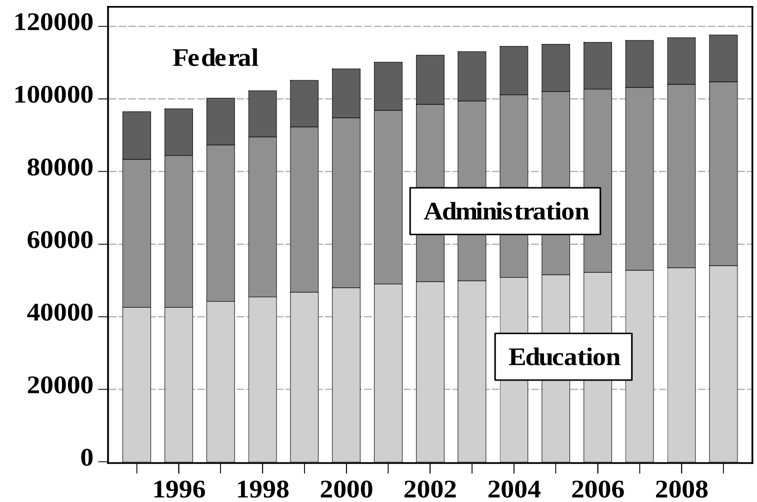
Construction: Much of Idaho's recent economic strength is attributable to the state's healthy construction industry. This strength is evident in both the housing starts and construction employment data. These data measure the industry's robustness in terms of its height and duration. For example, Idaho total housing starts came within striking distance of 25,000 units in the third quarter of 2005—its strongest showing ever. But this is not the only housing record. According to historical records, the number of Idaho housing starts has been growing since 1998, which is the longest on record. During this expansion the number of Idaho housing starts grew from 8,900 in 1997 to 23,100 in 2005—a 160% increase, or about 13% per year. Idaho construction employment has also been on a tear, increasing in 14 of the last 15 years. Construction employment has grown from 20,300 in 1991 to 44,400 in 2005. This sector's growth is even more apparent when compared to total nonfarm employment. From 1991 to 2005, Idaho construction employment advanced by about 5.7% per year. In comparison, Idaho nonfarm employment grew 3.2% annually over this same period. Given the important role the construction sector has played in the state's economic expansion, it is natural to speculate what will happen after the construction boom. Trepidation about the future is valid given the outlook for rising mortgage interest rates and cooling local population growth. These factors suggest Idaho housing starts and construction employment are near their respective peaks. It remains to be seen how fast and how far housing starts and construction jobs will decline. We continue to believe any retreat from recent housing starts and construction employment peaks will be relatively orderly and gradual. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, recent studies to identify communities vulnerable to "housing bubbles" show no Idaho communities are at significant risk (most "bubbles" are concentrated on the coasts). Fourth, Idaho could benefit from a boom in second homes. In light of these factors, Idaho's housing sector is not expected to bust. Instead, both Idaho housing starts and construction employment should decline gradually from their respective record levels over the forecast period.



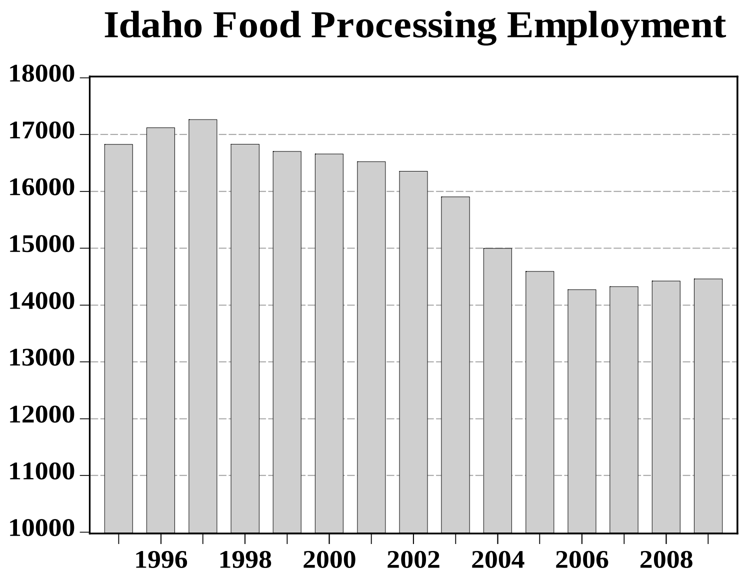
Nongoods-Producing Industries: The nongoods-producing sector has been and will continue to be an important part of Idaho's economy. For purposes of this section, the focus will be on the private, or nongovernmental, portion of nongoods-producing employment. Idaho government employment is covered in the following section. First, in 2005, the private portion of nongoods-producing employment accounted for over six of every ten nonfarm jobs. Second, Idaho nongoods-producing employment grew an average of 3.4% from 1991 to 2005, which was faster than total nonfarm employment's 3.2% annual average pace. Nongoods-producing employment is split into two major categories: services and trade. The services category is the larger of the two, accounting for 73% of the jobs. Services have also been the fastest growing of the two categories from 1991 to 2005. Specifically, services employment advanced an average of 4.3% per year while trade employment grew 2.6% annually. The services category consists of information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. The strongest performing components have been professional & business services and education & health services. The former component added jobs at a 6.3% average annual pace from 1991 to 2005 and the latter component's employment grew an average of 5.6%. The leisure and hospitality, information services, and the other services sectors all grew over 3% per year from 1991 to 2005. Over this same period, transportation and utilities increased 2.5% per year. Financial services advanced an average of 2.4%. Retail trade employment expanded at a 2.8% annual pace from 1991 to 2005 and wholesale trade employment increased at a 2.1% annual rate. Over the forecast period, Idaho total private nongoods-producing employment is expected to average 3.3% growth per year. Services employment should expand at a 3.4% annual rate and trade employment should increase an average of 3.1% per year.

Government: Idaho government employment is anticipated to gradually advance over the forecast period, the result of the state's slowing population growth. The positive correlation between government employment and population can be seen in the recent performance of both these measures. Idaho's population expanded nearly 30% from 1990 to 2000. In comparison, the nation's population rose just 13.2% during the same decade. The Gem State's population explosion was fueled by the flood of newcomers into the state. In fact, Idaho net migration was higher than the natural population (births less deaths) increase in every year from 1991 to 2000. The main reason the Gem State proved to be so attractive to newcomers is because in the 1990s it was viewed as an economic oasis in an economic desert. The Gem State proved especially enticing to Californians whose state was suffering its worst downturn since the Great Depression. The burgeoning population stretched the state's existing infrastructure. In an attempt to meet the needs of the growing populace, Idaho's state and local employment payrolls expanded an average of 3.0% per year from 1991 to 2000. Migration into Idaho peaked in 1994, and it has receded since then. In 2001, Idaho's natural population growth was actually above the migration increase, and the population grew about half as fast as in the previous decade. The slower population growth relieved some of the pressures from Idaho state and local governments, resulting in slower job growth beginning in the early years of the current decade. The state's population growth is expected to continue to slow over the next few years, and this will cause Idaho state and local government employment to grow just under 1% per year. The state's education sector will account for virtually all of the job gains over the forecast period, as local districts expand to meet the needs of growing enrollment. For example, the influx of students into the fast growing Meridian Joint School District finds many of its new schools above capacity when they first open their doors. In response, school district patrons passed a bond to fund the district's building needs. Idaho education-related employment should grow by about 2,500 jobs from 2005 to 2009. On the other hand, Idaho noneducation-related government employment will gain less than 200 jobs over the same period. One factor that could affect the state and local government job forecast is the property tax. Rapid escalation of property values in several parts of the state have once again led to concerns about higher property taxes. In response, the Idaho Legislature formed an interim committee that toured the state in order to get citizens' input on this issue. These meetings yielded several ideas for dealing with the property tax situation. It is anticipated the Legislature will use some of these ideas to form a plan to deal with property tax issues during its 2006 session. The adopted plan will influence local governments because these entities are funded by property taxes. Federal government employment should decline over the next few years. This decline reflects Congress' reaction to swelling federal budget deficits. The latest round of base realignments and closures that has been approved by President Bush will affect federal government employment in Idaho. It has been estimated 660 jobs will be lost, with Mountain Home Air Force Base taking the biggest hit. Unfortunately, the impact to the City of Mountain Home will be relatively high because Mountain Home Air Force Base is the city's largest employer.

Idaho Government Employment



Food Processing: One of the strongest characteristics of the one of the state's cornerstone sectors, food processing, is its ability to adapt. This characteristic has helped it evolve in an ever-changing world. Some of the recent changes have been painful. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About four hundred jobs were lost when the company permanently closed the plant. Although some plants have closed, new plants are opening. For example, Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. This fall Marathon Cheese announced it would build a $27-million plant in Mountain Home. Company officials estimate the cheese-packing plant will initially employ 250 workers, but employment should climb to twice that many jobs in five years. This would



make the plant one of Elmore County's largest employers. The new Gossner and Marathon cheese plants are symbolic of the state's growing dairy industry. According to the USDA, the size of Idaho's dairy herd more than doubled from 208,000 cows in 1994 to 424,000 cows in 2004. Over this same period, milk production more than doubled from 3.8 billion gallons to 9.1 billion gallons. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars in 1994 to $1.4 billion in 2004. Due to this strong growth, Idaho has moved ahead of Minnesota and within striking distance of Pennsylvania to become the nation's fifth largest milk producer. Cash receipts from dairy farms were higher than those of cattle and calves in three of the last five years on record. One of the reasons for the dairy industry's success is the efficiency of large operations. For example, more than 80% of the state's dairy cows reside in dairies with at least 500 cows. Although cattle and calves cash receipts came in second to dairy receipts, cattle and calves operations are huge contributors to the state's economy. In 2003 and 2004, cattle and calves cash receipts have been over $1 billion, or about a quarter of all farm cash receipts. Idaho's cattle and calves operations received an early Christmas gift this December when the Japanese government announced it was lifting its embargo on American beef. Prior to the ban on U.S. beef, Japan was Idaho's largest agricultural market, representing nearly one-third of all Idaho agricultural exports. The ban caused the state's Japanese exports to drop to just 18% of Idaho's total for 2004.